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Pakistan-GCC Economic Partnership: Bridging Nations through Free Trade

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On September 28, 2023, the Gulf Cooperation Council (GCC) initialised a preliminary free trade agreement (FTA) with Pakistan. Forged by years of a close relationship and a shared vision for regional prosperity, keeping the economic bond between the GCC and Pakistan in view, this is a landmark step forward towards a longer term expanded Pakistan-GCC Economic Partnership. Upon the completion of internal approvals by GCC member countries, the final agreement will come into effect. This FTA is designed to enhance market access for goods and services between GCC nations and Pakistan by eliminating or reducing customs duties on goods and services. This groundbreaking initiative promises to dismantle trade barriers, fostering a dynamic marketplace where investment flourishes, production thrives, and businesses across diverse sectors gain access to new markets. Additionally, it seeks to encourage and safeguard investments. The comprehensive provisions of the FTA encompass various aspects, including customs procedures, investment, e-commerce, dispute resolution, trade remedies, competition, intellectual property, and the promotion of small and medium enterprises. The agreement also has broader objectives, aiming to foster collaboration in areas such as

energy, health, food security, agriculture, security, transportation, environment, culture, and education.¹

Previously, a vision of free trade between Pakistan the GCC was discussed in 2004 with the signing of a preliminary framework agreement. Encompassing the six member nations of Saudi Arabia, the United Arab Emirates, Bahrain, Oman, Qatar, and Kuwait, this pact laid the groundwork for a potentially transformative economic partnership. However, early negotiations yielded limited progress, and the initiative was dormant for nearly two decades. In a welcome development, 2021 witnessed a revitalization of the dialogue, with the UAE and Pakistan revisiting the FTA's potential with renewed rigour and determination.² This renewed momentum offers promising prospects for forging a robust economic partnership capable of unlocking significant opportunities for both Pakistan and the GCC, which is long overdue.

This partnership, when fully materialized, is likely to unlock a wealth of economic opportunities for both regions. From the developing industrial hubs of Pakistan to the energy-rich kingdoms of the Gulf, a surge of activity is anticipated, injecting fresh impetus into regional economies and producing win-win outcomes for all stakeholders. Beyond mere commerce, the Pakistan-GCC Economic Partnership transcends to a strategic level, building bridges not just of trade, but of cultural understanding and mutual respect. This deeper level of cooperation promises to amplify the collective voice of both regions on the global stage, while fostering a collaborative environment conducive to knowledge sharing and joint ventures. The GCC region holds a pivotal position in shaping the trajectory of Pakistan's economy, serving as the principal source of energy imports and a significant contributor to foreign remittances. The extensive presence of Pakistani expatriates in the GCC, totaling 11.91 million out of 12.4 million registered expats, underscores the depth of this connection. Notably, 96 percent of the Pakistani labor force operates within the GCC, with Saudi Arabia and the UAE hosting significant proportions.³ Developments, including ongoing economic diversification efforts within the Gulf and the ambitious, long term visions for the future articulated by several GCC states, present a whole range of promising avenues for mutual collaboration.

¹ Middle East: Gulf Cooperation Council Signs Preliminary FTA with Pakistan, October 25, 2023
<https://research.hktdc.com/en/article/MTUxNjU2OTgwMQ>

² Mubarak Zeb Khan, Pakistan moves closer to signing landmark trade agreement with GCC, December 3, 2023
<https://www.dawn.com/news/1794656>

³ Shakeel Ahmad Ramay, Pakistan and Gulf Cooperation Council FTA , The News, December 18, 2023,
<https://www.thenews.com.pk/print/1139374-pakistan-and-gulf-cooperation-council-fta>

In Pakistan, initiatives like the establishment of the Special Investment Facilitation Council (SIFC), in June 2023, has been tasked with the mission of attracting foreign direct investment, particularly from the GCC countries. The targeted sectors include agriculture, minerals and mining, Information Technology, and defence production. This significant step is complemented by the inauguration of the Pakistan Sovereign Wealth Fund in August 2023, although the finalization of the Comprehensive Economic Partnership Agreement (CEPA), is yet due; with the UAE. These collective endeavors underscore Pakistan's commitment to leveraging GCC investments for fostering economic stability and progress.⁴ Furthermore, Pakistan can also possibly tap into the potential of agricultural exports as the GCC countries are net food importers.⁵ Bilaterally, Pakistan has entered into multiple Memoranda of Understanding (MoUs) and agreements with GCC nations, further fortifying economic ties.

In conclusion, the GCC's dynamic economic landscape presents both opportunities and challenges for Pakistan. The envisioned FTA and ongoing collaborations signal a promising trajectory, contingent upon proactive reforms and strategic measures to navigate the evolving nature of economic relations between Pakistan and the GCC. However, slow progress on the FTA does require some reflection, as close geographical proximity as well as good relations with the GCC states leave no justification for delayed progress. Pakistan must work towards extensive labour training in a diverse number of fields, in order to further tap into the GCC work market. In a competitive world, the importance of geo-economics for a developing economy like Pakistan, which is shifting its focus more towards geo-economics, it is imperative to take swift measures aimed at fortifying current economic relations and further strengthening them. An FTA with GCC can be fruitful if Pakistan takes measures that cater to the requirements of the international market. Moreover, it is essential for Pakistan to capitalize on the opportunity presented by Gulf countries seeking to diversify their Public Investment Funds. A strategic approach involves directing targeted investments towards the Special Economic Zones (SEZs) within the China-Pakistan Economic Corridor (CPEC) as well.

In a broader context, would do well to pursue a forward-thinking diplomatic strategy that adapts to the evolving dynamics in the Gulf, prioritizing sustainable economic linkages over anything else. As global dynamics undergo transformations, Pakistan's economic well-being assumes even greater significance for

⁴ Ali Awadh Asseri, Pakistan-GCC partnership has new momentum, Arab News, July 25, 2023, <https://www.arabnews.com/node/2344116>

⁵ Faiza Abid, Analysing Pakistan-GCC Free Trade Agreement amid Shifting Gulf Dynamics, January 2, 2024, STRAFASIA, <https://strafasia.com/analysing-pakistan-gcc-free-trade-agreement-amid-shifting-gulf-dynamics/>

its global influence. In this regard, the Pakistan-GCC FTA transcends its role as a mere economic arrangement; it holds substantial implications for regional cooperation, economic development, and diplomatic relations and also a catalyst for economic growth.